CARE Program

By: Hon. John C. Ninfo, II

NextStep Magazine
2007 Parent Guide

Did you know that your child's credit score may be more important to their future than their academic transcripts, or that 68% of high school and college students say they have never had a meaningful conversation with their parents about personal finances? What's your reaction to an Indiana University administrator candidly admitting that they lose more students to credit cards than to academic failure, and a Rochester Institute of Technology professor estimating that as many as 10% of college students will drop out of college because of credit problems?

On a recent flight to the west coast, I sat next to a woman on her way to see her son to discuss his finances. She was still unsure whether she and her husband should bail him out of his credit card debt and put him on a repayment plan, or let him "learn the hard way" by dropping out of college to get his finances under control and then finish his education. Believe me, this is a conversation that you don't want to have with your child someday.

Most college students are easy prey for all of the creative credit card offers with attractive free gifts that they will be bombarded with from the moment they walk onto campus. The problem is that too many young people are financially illiterate, hungry consumers, getting their first taste of financial independence, who can think of a million reasons to do and buy things they can't afford, and are too quick to be influenced by the peer pressure of other students who are using credit cards and taking advantage of these offers.

Greg was a 19-year-old sophomore at a prestigious university. In a little over a year he had lost more than $7,500 playing online poker. A class president and the son of a minister, he became so desperate over his gambling debts, financed with credit cards, that he robbed a bank. Greg was one of approximately 1.6 million college students who gambled online last year. Will your child accept a credit card solicitation when they go to college so that they can gamble online?

Unfortunately, it is the naive use of easy to obtain credit cards and its impact on their credit reports that has resulted in so many college graduates being turned down for jobs, car loans, apartments and graduate student loans, and even being forced to file for bankruptcy.

In a world where all of this is happening, it's time to get serious about making sure that your future college student learns some of the basic lessons, tactics and techniques of personal finance.

Here are some things that you can do:

1. **<u>Start with the basics</u>:**

   Don't assume that your child's school has taught them anything about personal finances. Open a checking and savings account with them now. Make sure the bank you open these accounts at will have a branch near their college. Teach them to put a portion of their income (after-school and summer jobs, allowance or gifts) into the savings account for an emergency fund (say $500) and to save for some of the things they may want for themselves (an iPod or tickets to an upcoming concert). Too many Americans have forgotten about the need for savings and the value of delayed gratification. You need to teach your child both of these lessons and why they are important. Teach them to fill out their check register when they write a check and sit down with them to show them how to balance the account when their monthly statement comes. This is also a good time to review the wisdom of the spending decisions they made that month. Discuss the difference between needs, wants and wishes.

2. **<u>Get your child a debit card</u>.**

The debit card should be tied to the checking account and when used an entry should be made on their check register. Consider whether you want the debit card to have overdraft protection. It may be just an easy way for them to overspend once they figure out how overdraft protection works. Using their checking and savings accounts and debit card responsibly will teach your child to how manage and budget their money, and because debit cards are so widely accepted now, these are all that they will need for their first three years of college, as long as you keep working with them on their finances.

3. **<u>Help your child create a realistic college budget before they go to college</u>.**

Now that you have taught your child some of the basics of managing money, it's time to get serious about their college budget. There will be many new things to spend money on at college and they will be tempted to take advantage of all of them. They may even be tempted to try to "keep up" with some new wealthier friends they will inevitably meet. There is an excellent college budget article on the CARE Program website, www.careprogram.us, that you need to work on together. Prepare the budget, discuss the tips, including how to save money, and keep working with them to update their budget and monitor their spending throughout their time at college.

4. **<u>Explain to your child the dangers of credit cards and discourage them from having one until they are a college senior</u>.**

Your child doesn't know that credit cards are not new money, more money or free money. In fact, unlike reasonable student loan, home mortgage, car or business debt, credit card debt at high interest rates and often with exorbitant fees, is bad debt and the most expensive debt that anyone can incur. Explain to your child that if they use a credit card and don't pay the balance off every month, but make only low or minimum payments, they may end up paying two or three times as much for the items they charged and it will take them years to pay for them because of the interest rates and fees added on. The credit card industry makes billions of dollars in profits every year because people buy into our competitive consumption, debt is ok, buy now and pay and worry about it later, just do it, society, but encourage your child to resist all of those offers for credit cards and not to be one of the people that contributes to those profits. Explain the consequences of credit card abuse and help your child understand that the best way to manage debt is to avoid it, and the best way to avoid debt in college is to avoid credit cards.

5. **Get your child a credit card in their senior year of college to improve their credit score**

The responsible use of a credit card will definitely help your child's credit score for a future home or car loan, so that in their senior year help them get one credit card with a low credit limit and a reasonable interest rate. Explain to them that they should charge a few things that they can afford, and pay the balance off every month on time. However, for a few months, they should charge a small item and not pay the balance in full, but make the minimum payment on time, paying the balance with interest at the end of the following month making sure that they don't charge anything more during that month. This will provide them with a favorable credit history for when they want to get a home or car loan.

6. **Improve your child's Financial IQ.**

You and your child should visit the CARE Program website together. You can learn important tips on personal finances, check out links to other websites and read past CARE Program *NextStep Magazine* articles, including Parent Guide articles.